

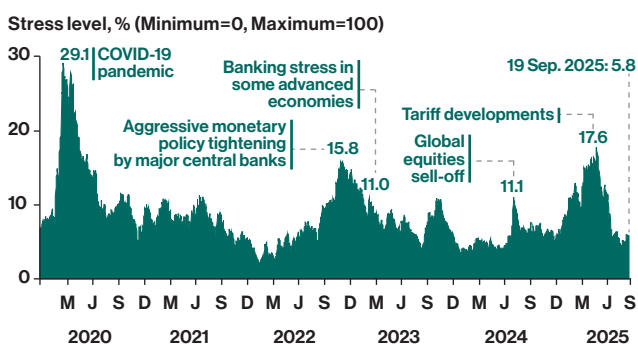
# Key Developments in the First Half of 2025

## MARKET RISK

### Domestic financial markets remained orderly despite heightened global volatility

Similar to other regional markets, Malaysia's financial markets continue to be influenced by global developments. Uncertainties surrounding US tariff developments, concerns over global growth and geopolitical tensions have contributed to increased volatility in global financial markets. This volatility was reflected domestically, with the Financial Market Stress Index (FMSI) rising between March and May 2025 (Chart 1.1). The index peaked at 17.6% on 27 May 2025, following the US tariff announcements on almost all trading partners on 2 April 2025 and concerns over the US' long-term fiscal sustainability. Unlike past episodes of elevated stress, the increase in the FMSI mainly reflected volatility that accompanied positive performance of the ringgit and the domestic bond markets. These gains contributed to higher FMSI readings while overall market conditions remained orderly throughout the period.<sup>1</sup>

**Chart 1.1: Financial Market – Financial Market Stress Index (FMSI)**



Source: Bloomberg, Reuters and Bank Negara Malaysia estimates

<sup>1</sup> All data and assessments in the Market Risk section refer to the period between 1 March and 19 September 2025, unless stated otherwise.

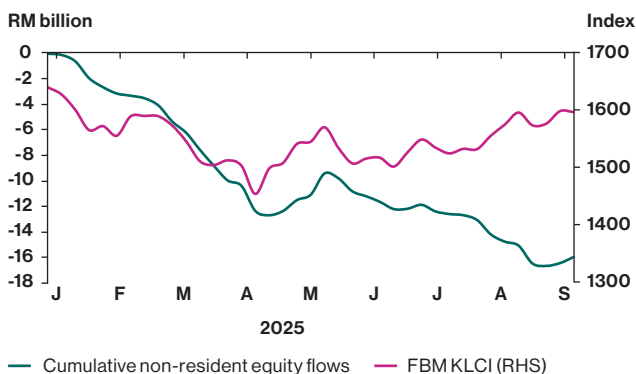
Since reaching its May peak, the FMSI subsequently eased below its five-year historical average (2020–24 average: 7.3%), reflecting a moderation in volatility across all markets.

The domestic equity market recorded a modest gain, with the benchmark FBM KLCI rising by 1.5% between March and September 2025 (Chart 1.2). The KLCI performance during this period can be segmented into four distinct phases. In the first phase (March to early April), the KLCI declined by 11.1% amid risk-off sentiment following the announcement of US tariffs and countermeasures by other countries. This was followed by a strong rebound of 13.1% in the KLCI from mid-April to mid-May, supported by improved investor sentiment following a 90-day extension on US tariffs for most countries and the commencement of bilateral tariff negotiations. However, the KLCI experienced a decline of up to 4.4% between mid-May and end-July, amid the release of weaker-than-expected corporate earnings and lingering uncertainty over the impact of US tariffs on global trade and domestic economic growth. From August onwards, the KLCI recovered by 5.6%, supported by the conclusion of many trade negotiations which, to some extent, has eased global uncertainty.

Consistent with the heightened market volatility, non-resident investors recorded net outflows from the domestic equity market amounting to RM10.6 billion during the period (2024: -RM4.2 billion; March–September 2024: RM1.6 billion). These outflows were largely offset by domestic institutional investors,<sup>2</sup> who purchased RM10.4 billion worth of equities (2024: RM12 billion; March–September 2024: RM3.3 billion). Reflecting subdued investor sentiment, overall trading activity in the domestic equity market declined, with the total value traded amounting to RM659.7 billion (2024: RM1,560.4 billion; March–September 2024: RM993.5 billion). Retail investors' trading activity also moderated, accounting for only 16.9% of the total value traded in the domestic equity market (2024: 20.6%; 2022–24 average: 23.6%).

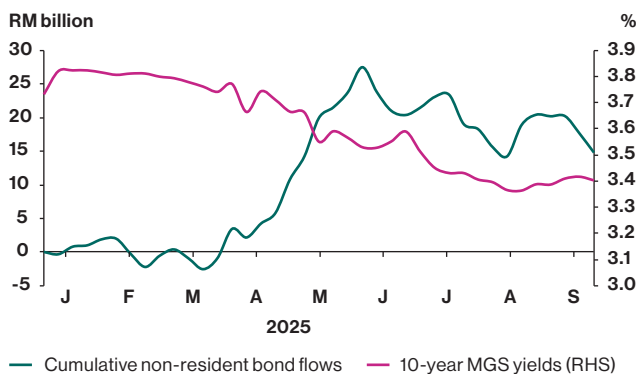
<sup>2</sup> Domestic institutional investors include banks, non-bank financial institutions (NBFIs) and insurers and takaful operators (ITOs).

**Chart 1.2: Financial Market – Cumulative Non-resident Equity Flows and Performance of the Domestic Equity Market**



Source: Bloomberg

**Chart 1.3: Financial Market – Cumulative Non-resident Government Bond Flows and Performance of the Domestic Government Bond Market**



Source: Bank Negara Malaysia and Bloomberg

### Non-resident flows in the government bond market remained largely influenced by external factors

The 10-year Malaysian Government Securities (MGS) yields declined by 39 basis points (bps) between March and September 2025, averaging at 3.6% (October 2024–February 2025 average: 3.8%) (Chart 1.3). During the same period, the domestic government bond market recorded strong non-resident inflows, with net purchases amounting to RM14.4 billion, a notable increase compared to the inflows in 2024 (RM1.3 billion). These inflows were supported by improved sentiment towards several emerging market assets, including Malaysian government bonds, amid growing uncertainty over US policy direction and positive developments surrounding tariff negotiations.

Domestic institutional investors remained active in the government bond market, recording net purchases of RM22.1 billion in government bonds between March and September 2025 (March–September 2024: RM26.8 billion; 2024: RM80.6 billion). The sustained demand for government bonds was also reflected in the primary market, with a healthy bid-to-cover ratio of 2.7 times during the period (2022–24 average: 2.3 times).

In the corporate bond market, funding conditions remained healthy with RM79 billion raised between March and August 2025 (March–August 2024: RM64.1 billion). Average credit spreads between 10-year AAA-rated papers and 10-year MGS remained tight, at 20 bps on average within the period (2024 average:

20 bps; 2023 average: 44.1 bps), reflecting continued demand for corporate bonds by yield-seeking investors. Overall issuances remained concentrated in government-guaranteed and AAA-rated papers, which collectively accounted for more than half of the outstanding corporate bonds.

Total banking system liquidity in the first half of 2025 remained sufficient to support financial intermediation, ranging between RM63 billion and RM102 billion (2H 2024: between RM89 billion and RM108 billion). However, the domestic money market experienced intermittent tightness, driven by higher currency-in-circulation, fluctuations in government cash balances and multiple large bond issuances. More recently, there has also been temporary and sizeable liquidity outflows from the conventional to the Islamic banking system that led to tightness in the conventional money market. This shift in liquidity was driven by corporate deposit migration and intragroup funding to support the growth of Islamic financing. To alleviate the resulting pressure, BNM temporarily deployed the overnight reverse repo facility to ensure banks' continued access to overnight funding. Consequently, the Malaysia Overnight Rate (MYOR) tracked the Overnight Policy Rate (OPR) closely, with no discernible spread.

In order to further support liquidity conditions, BNM reduced the Statutory Reserve Requirement (SRR) ratio by 100 bps, from 2.00% to 1.00%, effective 16 May 2025. The reduction released approximately RM18.6 billion of liquidity into the banking system, which contributed to banks reducing borrowings through BNM's reverse repo facilities by RM13.8 billion. Prior to the SRR cut, outstanding reverse repo stood at RM47.8 billion and has since gradually declined to RM43 billion. The reduction

was more pronounced in the 1-month and 3-month tenors, which fell by RM2.7 billion and RM4 billion respectively, partially offset by an RM1.8 billion increase in the 1-week tenor. The SRR reduction was aimed at ensuring sufficient liquidity in the financial system, helping banks better manage liquidity in an environment of greater financial market volatility and sustain financial intermediation.

Rates in the unsecured and secured interbank markets remained stable from March to mid-May 2025 before declining gradually as interbank liquidity conditions eased post-SRR cut in May, and expectations of a lower OPR gained traction. The benchmark 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) followed a similar trend, with the spread between 3-month KLIBOR and OPR gradually narrowing to 47 bps, down from 73 bps at the end of 2024 (2015–19 average: 44 bps). Trading activity in the interbank markets remained robust, with term unsecured volume increasing to RM213.7 billion in the first half of 2025 (1H 2024: RM142.7 billion), driven by an increase in intragroup transactions, which amounted to RM59.3 billion during the period in review (March to September 2024: RM7.8 billion). In contrast, secured lending volumes fell by 14% year-on-year to RM114.5 billion over the same period. This is driven by lower trading activity in the 3-month tenor, which decreased to RM51.4 billion (1H 2024: RM77.6 billion) on lower demand for term secured borrowings. BNM continues to closely monitor liquidity conditions, with a primary focus of maintaining adequate domestic liquidity to support efficient intermediation in the interbank money markets. As in the past, BNM stands ready to provide liquidity via the reverse repo facility at appropriate market rates.

Between March and September 2025, the ringgit strengthened by 6.1% against the US dollar to 4.2070. The ringgit's positive performance was largely driven by

global developments, including broad-based weakening of the US dollar amid concerns over fiscal sustainability and moderating US economic growth arising from trade uncertainties. The ringgit also strengthened against other major trading partners, as reflected in a 2.3% appreciation in the Nominal Effective Exchange Rate (NEER). During the same period, the average 1-month USDMYR implied volatility rose to 6.1% (2024: 4.6%). This trend was in line with other peers, with the average regional currency volatility rising to 7.1% during the period (2024: 5.9%). Despite the higher volatility, the FX market remained conducive for financial intermediation, with average daily onshore trading volume rising to USD19.2 billion (2024: USD17.6 billion). In the near term, ringgit movements will continue to be mainly influenced by external developments, including the trajectory of global economic growth and the monetary policy path of the US Federal Reserve. Nonetheless, greater clarity over Malaysia's trade agreement with major trading partners and commitment towards ongoing structural reforms are expected to provide underlying support to the ringgit. BNM continues to monitor global developments and stands ready to manage excessive volatility in the onshore FX market.

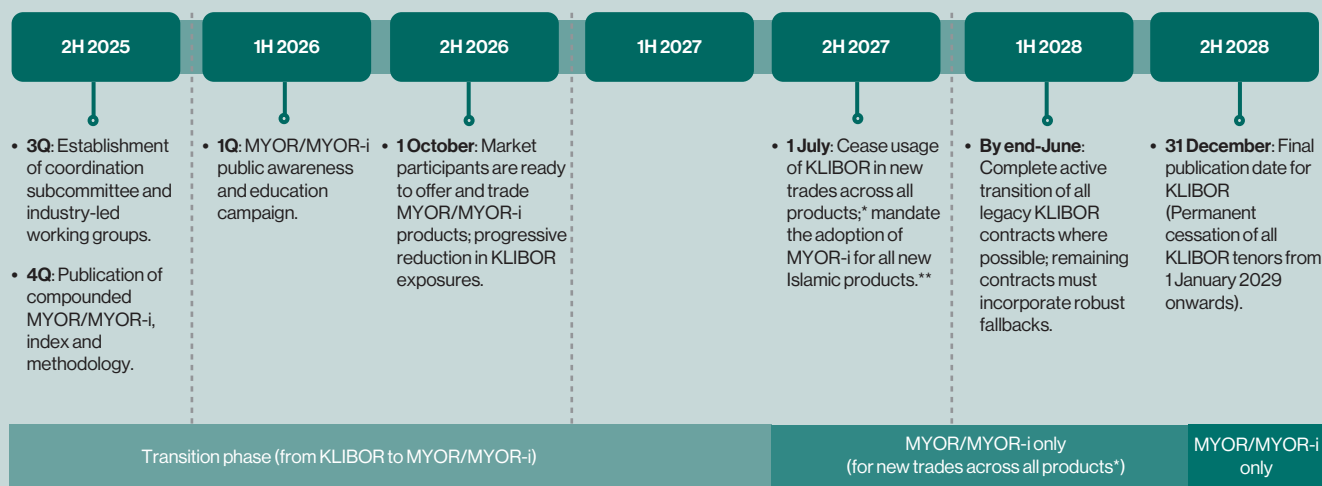
Looking ahead for the remainder of 2025, Malaysia's financial markets are expected to be influenced by external developments. Key factors include the uncertainty over the impact of US policy on inflation and global trade, the pace of monetary policy easing in advanced economies, particularly by the US Federal Reserve, and growth momentum in major economies. These external factors, along with any escalation in trade and geopolitical tensions, could reintroduce volatility across both global and domestic financial markets. Nonetheless, Malaysia's robust banking system, deep financial markets and diversified investor base will continue to support orderly domestic market conditions.

## Transition from KLIBOR to MYOR/MYOR-i

Malaysia is transitioning from the Kuala Lumpur Interbank Offered Rate (KLIBOR) to the Malaysia Overnight Rate (MYOR) and its Islamic equivalent, the Malaysia Islamic Overnight Rate (MYOR-i). The transition is in line with global financial benchmark reforms and consistent with the priorities outlined in the Financial Sector Blueprint 2022–2026<sup>1</sup> to ensure continuous robustness of domestic financial market benchmarks.

BNM<sup>2</sup> published a transition roadmap outlining key timelines and milestones to accelerate the financial industry's adoption of MYOR/MYOR-i. By end of the transition, KLIBOR will cease to exist effective 1 January 2029.

Diagram 1: Transition Roadmap to MYOR/MYOR-i



\* Exception may be granted for specific products or purposes (e.g. to manage risk and unwind existing positions throughout the transition).

\*\* BNM plans to mandate the use of MYOR-i for Islamic financial products starting from 2H 2027, following a comprehensive assessment.

Source: Bank Negara Malaysia

## Snapshot: Domestic Financial Benchmarks in Malaysia

KLIBOR, introduced in June 1987, has long served as a key financial benchmark for the Malaysian financial market. KLIBOR is 'submission-based'. It represents the rates at which KLIBOR-submitting banks are willing to lend ringgit funds for specific tenors to other KLIBOR submitters.<sup>3</sup> To determine the appropriate submitted rates, KLIBOR submitters would typically rely on the rates of their own concluded transactions. In the absence of such transactions, submitters would fall back to other data points such as their executable bids and offers, and expert judgment. Given this, the robustness of the benchmark rate is significantly reliant on the volume of underlying transactions.<sup>4</sup>

BNM introduced MYOR in 2021, followed by MYOR-i in 2022, to serve as alternative reference rates (ARRs)<sup>5</sup> for Malaysia. Unlike KLIBOR, MYOR and MYOR-i are transaction-based benchmark rates derived from actual transactions conducted in the overnight unsecured interbank money markets, which are highly active and liquid. These rates run in parallel with KLIBOR under a multiple-rate approach, with periodic reviews undertaken to ensure that Malaysia's financial benchmark rates remain robust and reflective of active underlying market conditions.

<sup>1</sup> The Financial Sector Blueprint 2022–2026 outlines measures to strengthen the vibrancy and resilience of financial markets to act as an absorber of risk, which includes enhancing the integrity and reliability of Malaysia's financial benchmark rates by undertaking periodic reviews on the robustness of financial benchmarks.

<sup>2</sup> In consultation with Financial Markets Committee (FMC) as the Steering Committee for KLIBOR Transition.

<sup>3</sup> Currently, there are 11 KLIBOR submitters. KLIBOR is published for the 1-, 3- and 6-month tenors, following the discontinuation of the 2-, 9- and 12-month tenors.

<sup>4</sup> Unsecured interbank borrowing and lending; and negotiable instruments of deposits (NIDs).

<sup>5</sup> Alternative Reference Rates (ARRs) are robust financial benchmarks, developed typically based on actual market transactions, ensuring transparency and reliability, and are expected to adhere to the IOSCO Principles for Financial Benchmarks (2013), which set global standards for benchmark governance, methodology and data integrity.

**Table 1: Comparison of Features between KLIBOR and MYOR/MYOR-i**

	KLIBOR	MYOR/MYOR-i
<b>How is it calculated?</b>	'Submission-based' Based on the trimmed average rate* submitted by KLIBOR submitters following a hierarchical order: (a) own concluded arm's-length transactions in the underlying or related markets (b) own firm (executable) bids and offers (c) expert judgment	'Transaction-based' Volume-weighted average rate of unsecured overnight MYR interbank transactions
<b>What is the tenor?</b>	1, 3 and 6 months	Overnight

\* Trimmed average rate is derived by eliminating the highest and lowest rates and averaging the remaining nine rates submitted by KLIBOR submitters.

Source: Bank Negara Malaysia

### The transition to MYOR/MYOR-i is a proactive forward-looking initiative to ensure continuous robustness of domestic financial benchmarks

The previously adopted multiple-rate approach, where MYOR/MYOR-i coexisted with KLIBOR, was intended to allow market participants to choose the most suitable reference rate for their needs. However, several key observations have emerged that prompted a reassessment of this approach. In recent years, the proportion of term tenors in the interbank volume underpinning KLIBOR submissions has declined, driven by a change in market preference for the overnight tenor. This trend reflected evolving liquidity management practices in response to shifting market dynamics amid heightened global uncertainties. The overnight tenor now accounts for 62% of the volume in the underlying and related markets for KLIBOR. This leads to increased reliance on non-transaction-based inputs, which may not be reflective of actual market prices.

In addition, anecdotal feedback suggests potential risk of KLIBOR submitters withdrawal should the KLIBOR setting framework be reviewed, in light of anticipated implementation of stricter requirements by their foreign parent banks. Such developments may further affect the reliability and robustness of KLIBOR.

As such, the transition to MYOR/MYOR-i serves as a pre-emptive measure to safeguard the integrity and robustness of Malaysia's domestic financial benchmark.<sup>6</sup>

**Table 2: Average Daily Trading Volume of Interbank Activities, Namely Unsecured Borrowing and Lending and NID, Underpinning KLIBOR Submissions (RM million)**

Year	Overnight	1-month	3-month	6-month	Others*	Total
2020	2,882	436	420	308	2,628	6,676
2024	5,998	414	348	249	2,597	9,607

\* Include odd-tenor transactions that do not fall exactly on fixed terms such as overnight, 1-month, 3-month and 6-month

Note: Data as at 31 December 2024

Source: Bank Negara Malaysia

<sup>6</sup> KLIBOR exposures stood at RM1.5 trillion as of March 2025, with 89% concentrated in derivatives such as interest rate swaps and cross currency swaps. The remaining 11% comprises of cash products, including non-retail loans, interbank unsecured borrowing and lending and floating-rate securities (source: survey conducted among Financial Markets Association of Malaysia (FMAM) members).

## Globally, there have been broad moves towards robust financial benchmarks anchored in deep and liquid markets

Based on the publication by the Financial Stability Board (FSB)<sup>7</sup> 'Reforming Major Interest Rate Benchmarks', the lack of sustainable liquidity in the interbank unsecured funding markets may undermine confidence in the reliability and robustness of the benchmarks derived from these markets. Uncertainty surrounding the integrity of the benchmark rate represents a potentially serious source of vulnerability and systemic risk.<sup>8</sup> Against this background, most jurisdictions have undertaken comprehensive reviews of respective benchmarks to ensure they remain robust and appropriately used by market participants. Following these reviews, several jurisdictions<sup>9</sup> have decided to cease their domestic IBOR (or equivalent rates) and transition towards a single-rate approach anchored on ARR to enhance the benchmark reliability. Other jurisdictions, while maintaining a multiple-rate approach, have reviewed and strengthened calculation methodologies of the benchmark rates to ensure continued robustness. Concurrently, efforts have been made to promote the adoption of ARR-based products and to ensure robust fallbacks<sup>10</sup> are in place in the event of potential domestic IBOR (or equivalent rates) cessation.

## Domestic market consultation indicates broad support for transition to MYOR/MYOR-i and cessation of KLIBOR

In September 2024, BNM released a Discussion Paper to solicit public input on the proposed transition to MYOR/MYOR-i and cessation of KLIBOR.<sup>11</sup> The Discussion Paper attracted responses from a broad spectrum of market participants.<sup>12</sup> A majority (93%) of respondents expressed support for the transition, citing alignment with international standards and the robustness of MYOR/MYOR-i. The feedback gathered also served to inform the development of the transition roadmap. The continued availability of KLIBOR was also observed as a factor contributing to the slower adoption of MYOR/MYOR-i, with MYOR/MYOR-i-based financial products remaining largely underdeveloped despite efforts to promote them.

## Ensuring a coordinated and orderly transition

The transition to MYOR/MYOR-i entails migrating all existing KLIBOR-based financial contracts to MYOR/MYOR-i. This transition is significant for both banks and non-banks with KLIBOR-based financial products as well as users of the benchmark rate. For example, market participants with exposure to KLIBOR-based derivatives and floating-rate notes will need to adapt to changes in pricing and risk management<sup>13</sup> as they transition to MYOR/MYOR-i. Meanwhile, borrowers, specifically individuals and businesses with existing KLIBOR-linked loans or financial products – which account for 3.2% of total outstanding loans,<sup>14</sup> may experience some interest rate and profit rate adjustments, affecting their repayment obligations. The actual adjustments on interest rate and profit rate faced by financial consumers depend on the margin spread over MYOR/MYOR-i, which may vary based on type of financial products.<sup>15</sup>

<sup>7</sup> The FSB is an international body that promotes international financial stability by monitoring and making recommendations about the global financial system.

<sup>8</sup> Thus far, there have been no notable concerns regarding the integrity of KLIBOR.

<sup>9</sup> As of August 2025, information from the central banks' websites indicates that the United States, the United Kingdom and Singapore have successfully transitioned to the more robust ARRs and ceased their respective IBORs. Meanwhile, Indonesia and Thailand are currently in the process of transitioning.

<sup>10</sup> Fallback language refers to the contractual provisions that outline the process for determining an ARR in the event that a benchmark becomes unavailable.

<sup>11</sup> For more information, please refer to the discussion paper (<https://www.bnm.gov.my/-/dp-myor>).

<sup>12</sup> A total of 57 responses were received encompassing banks, development financial institutions, insurance companies, asset managers, corporates and other financial market participants.

<sup>13</sup> One of the key changes in risk management involves the credit risk component. MYOR/MYOR-i is generally considered nearly free of credit risk due to its short tenor (i.e. overnight). In contrast, KLIBOR incorporates interbank credit risk as it is based on unsecured interbank borrowing and lending, as well as NIDs.

<sup>14</sup> Data as of 31 December 2024.

<sup>15</sup> Either based on industry recommendations or bilaterally agreed between the relevant counterparties. Based on developments in other jurisdictions, the conversion of existing KLIBOR-based loans to MYOR/MYOR-i may include the following components, such as compounded MYOR/MYOR-i, existing KLIBOR margin and an adjustment spread which accounts for the difference between KLIBOR and compounded MYOR/MYOR-i. More details will be announced during the transition period.

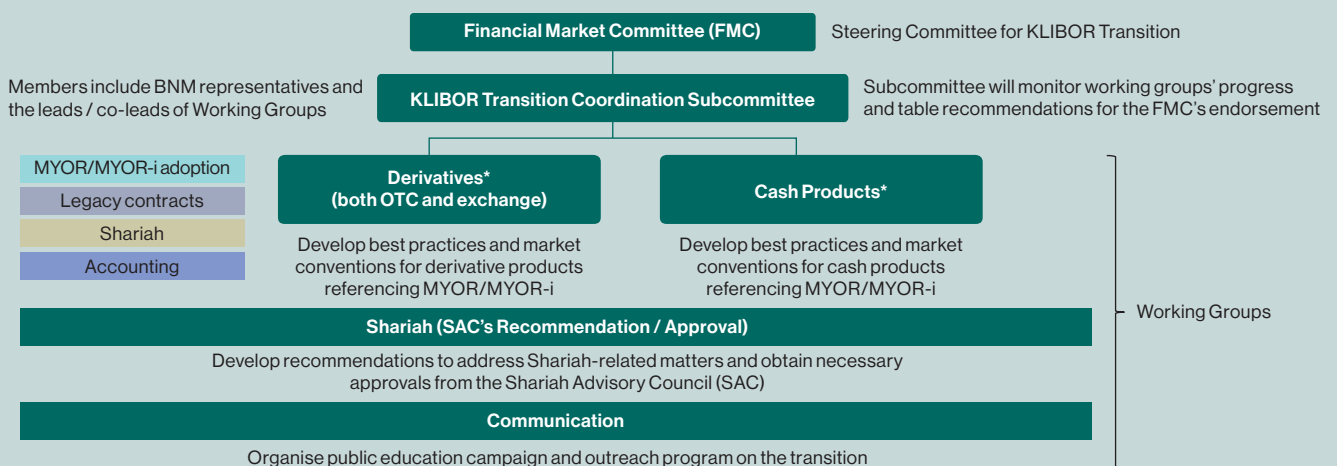
Legacy contract management, system readiness and stakeholder communication are among the key areas that warrant attention. Therefore, it will be critical for market participants and users of benchmark rates to ensure that their preparations for the transition commensurate with the scale and complexity of their operations and exposures. These include the following:

- i. establishing internal governance arrangements to oversee the transition of operational functions and business lines to MYOR/MYOR-i;
- ii. reviewing and updating contracts to ensure alignment with the transition from KLIBOR to MYOR/MYOR-i;
- iii. enhancing treasury and loan systems to ensure seamless integration to new calculations and reporting requirements; and
- iv. ensuring sufficient resources for staff training and customer engagement to promote awareness.

To facilitate an orderly industry transition, BNM has also collaborated with key industry players to implement a series of initiatives. These efforts will be overseen and coordinated by the KLIBOR Transition Coordination Subcommittee, along with four Working Groups, established under the FMC:

- i. recommending best practices, market conventions, and legacy management approaches for the industry through market consultations;
- ii. creating a dedicated transition page to disseminate updates and educational material on the transition to promote awareness; and
- iii. publishing compounded MYOR/MYOR-i and indices to serve as a standardised reference for market participants to support MYOR/MYOR-i adoption.

**Diagram 2: Structure of KLIBOR Transition Coordination Subcommittee and Working Groups**



\* Working Groups will cover both wholesale and retail (consumer) products.

Source: Bank Negara Malaysia

## Concurrent efforts to support MYOR-i transition in the Islamic Financial market

For the Islamic financial market and system, Malaysia is promoting the adoption of MYOR-i to strengthen the Islamic financial ecosystem. The availability of a Shariah compliant benchmark rate would enhance the resilience of the Islamic finance infrastructure, providing an end-to-end solution for Islamic institutions. To accelerate industry-wide adoption of MYOR-i, BNM plans to move forward with the mandatory adoption of MYOR-i starting from 1 July 2027. MYOR-i will become the standard reference rate for Islamic financial products.<sup>16</sup> This is not just a technical adjustment; it marks a structural transformation in our Islamic financial landscape. As the world's first transaction-based Islamic benchmark rate, MYOR-i brings transparency, consistency, and Shariah alignment to the heart of Islamic finance.

To ensure a smooth transition, BNM, along with key Islamic industry players and associations, would focus on these key areas:

- i. promoting active interbank activity to support continuous reliability of MYOR-i;
- ii. broadening market participation among Islamic financial institutions and corporate issuers among others;
- iii. enhancing hedging capabilities in the Islamic derivatives market to support effective risk management for MYOR-i-linked products; and
- iv. promoting diversification of MYOR-i based financial instruments such as Islamic profit rate swaps, Islamic cross currency swaps and pricing of mortgages.

Moving forward, BNM, in collaboration with the FMC, will provide regular updates to market participants on the progress of the transition.

## Reference

Financial Stability Board (2014). Reforming Major Interest Rate Benchmark. Available at [https://www.fsb.org/uploads/r\\_140722.pdf](https://www.fsb.org/uploads/r_140722.pdf).

<sup>16</sup> The Shariah Advisory Council of BNM (SAC) has ruled that MYOR-i and its calculation methodology under both normal and contingency situations are Shariah-compliant as it includes only Shariah-compliant transactions. SAC also allows, on a hajah basis, for Islamic financial institutions to temporarily reference conventional term rates such as KLIBOR or other conventional term reference rates in the absence of a reliable Islamic term reference rate. Refer to 'SAC Ruling on the New Islamic Reference Rate i.e. Malaysia Islamic Overnight Rate (MYOR-i)' for further details. Available at <https://www.bnm.gov.my/-/bnm-sac-218th-mtg-ruling>